

# We create value by managing our risks astutely.

## RISK MANAGEMENT

**Koç Group uses risk management and capital allocation processes that improve transparency and encourage a more systematic risk approach when taking investment and business decisions at all levels.**

As we leave the crisis behind, a proactive and disciplined approach to risk is still critical. Therefore, we are still vigilant towards risks and we maintain a strong asset quality and capital structure. However, we also need to selectively accept risks where they drive growth and create value on a risk-adjusted basis. Therefore, we continue to tighten our risk controls and processes, while maintaining flexibility for business leaders to capture opportunities in their respective markets.

The only way to ensure that we are creating sustainable shareholder value is to maintain awareness of the risks that we take to generate profits. Koç Group has historically followed a conservative approach in this regard. We are now building on this heritage by developing even stronger risk management and capital allocation processes that improve transparency and encourage us to consider risks more systematically as an integral part of investment and business decisions at all levels.

At Koç Group, risks are managed with the oversight of the Board of Directors, under the leadership of Finance Group, in coordination with all Group Presidents. The Group emphasized its commitment to risk management by appointing a Risk Coordinator reporting to the CFO and establishing an Enterprise Risk Management Function to further develop the Group's risk policies, limits and review mechanisms. Our risk function leverages the risk infrastructures in each of our businesses, which have adopted an approach that is aligned with the Group's overall risk policies and limits. Our risk infrastructure is designed to identify, evaluate and mitigate risks within each of the following categories:

### Financial

Financial risks relate to our ability to meet financial obligations and mitigate effects of market volatility, in five categories:

The only way to ensure that we are creating sustainable shareholder value is to maintain awareness of the risks that we are taking to generate our profits. We remain vigilant towards risks and maintain high asset quality and a strong capital structure.

**Exchange rate:** Koç Group protects itself from exchange rate volatility through keeping exposures under limits approved by the Board of Directors. Derivative transactions are used when required by this strategy.

**Liquidity:** Our policy is to continue to diversify our funding sources and maintain a sufficient level of cash and cash equivalent assets. We also balance our cash and cash equivalent assets with the short term liabilities to meet any sudden cash need.

**Credit:** We manage this risk with credit assessments, setting limits for each counterparty and obtaining the highest possible guarantee. We leverage the Group's credit intelligence across different markets using an internally developed program called E-risk, which tracks trade receivables risk on a daily basis.

**Interest rate:** In order to manage interest rate risk, Koç Group implements certain precautions such as balancing the repricing dates of interest rate sensitive assets and liabilities and employs certain derivative financial instruments when necessary.

**Commodity price:** We take commodity exposures where they are part of our core business and avoid or reduce exposure where possible through a variety of hedging mechanisms.

### Strategic

Strategic risks relate to the demand for our products and services, market regulations as well as factors that drive market share such as competition, technological changes, consumer trends and product innovation. These risks are managed by each company and monitored by the Group through budget, strategic plan and business result review processes. In addition, macroeconomic and sector specific developments are monitored centrally by the president of each group. Koç Group's strong presence and diversified business lines in the national economy enable us to recognize market changes early and coordinate responses rapidly.

### Operational

Operational risks include incidents that affect our operations such as earthquakes, fires and environmental accidents, as well as the integrity of our internal systems and processes. Insurable risks are frequently re-assessed and transferred out of the Group based on a cost-benefit analysis. Since its foundation, Koç Group placed great emphasis on internal control. In this regard, the Audit Group Presidency operates under the Chairman of the Board of Directors in accordance with the principle of separating administration and audit tasks. Audit Group Presidency performs audits of financial and operational processes and for potential risks and frauds at Koç Group companies.

### Legal

Koç Holding has developed various systems against potential legal risks. Early warning systems, an on-line database, online intellectual property rights management program (mari@a system), legal compliance test (HUY) and contract audit system (LERİMAN), to name a few.

Risks identified through our risk management processes are prioritized depending on the probability and severity of the risk. We ensure that the most important risks have responsible business leaders at company and/or Group level. We have general response strategies for managing risks, which categorize risks according to whether the company will avoid, transfer, reduce or accept the risk. These response strategies are tailored to ensure that risks are within acceptable Board of Directors tolerance levels.

